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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 81/82

10:00 a.m., May 29, 1981

W. B. Dale, Acting Chairman

Executive Directors	Alternate Executive Directors
	O. Kabbaj
	L. D. D. Price
	S. E. Conrado, Temporary
	J. E. Leimone, Temporary
	O. Uçer, Temporary
	M. Z. M. Qureshi, Temporary
	A. Nagashima
	F. A. Tourreilles, Temporary
	J. S. Mair, Temporary
	G. Jauregui, Temporary
B. Kharmawan	V. Supinit
S. Kiingi	F. Sangare
	G. Winkelmann
	C. P. Caranicas
	T. Aulagnon
	A. B. Diao, Temporary
	D. L. Kannangara
	H. G. Askari, Temporary
	A. F. P. Bakker, Temporary
A. R. G. Prowse	P. L. Mapa, Jr.
J. Sigurdsson	
	Wang E.

L. Van Houtven, Secretary
J. A. Kay, Assistant

Also Present

Asian Department: R. J. Niebuhr, D. A. Scott, G. Szapary, N. Tabata. European Department: L. Alexander, P. B. de Fontenay, U. Dell'Anno, R. P. Hicks, A. Knöbl, H. O. Schmitt, J. Somogyi, S. M. Thakur, H. Vittas, J. R. Wein. Exchange and Trade Relations Department: C. D. Finch, Director; S. J. Anjaria, M. Guitian. Legal Department: W. E. Holder, Ph. Lachman, A. O. Liuksila. Advisors to Executive Directors: C. J. Batliwalla, J. U. Holst, P. D. Peroz. Assistants to Executive Directors: M. J. Callaghan, M. V. Carković, C. Chipeta, J. L. Feito, K. V. Jännäri, M. Kusakabe, S.-W. Kwon, C. N. Pinfield, H. Suzuki, J. F. Williams.

1. SOLOMON ISLANDS - STAND-BY ARRANGEMENT

The Executive Board considered a request by the Solomon Islands for a stand-by arrangement for a period of one year in an amount equivalent to SDR 1.6 million, or 50 per cent of quota, together with a proposed decision (EBS/81/101, 5/6/81; and Cor. 1, 5/21/81).

Mr. Prowse made the following statement:

The staff has produced a perceptive and thorough appraisal. Neither the Solomon Islands' authorities nor I have any substantial disagreement with it.

The Solomon Islands is a small open economy, but compared with some other similar economies it has considerable potential for export growth in agriculture, forestry, and fishing, and for import substitution in the energy sector.

The economy of Solomon Islands has made remarkable progress in recent years, both in terms of aggregate output growth and diversification, with sustained economic growth at an average annual rate of about 8 per cent during 1973-79 together with reasonable price stability and a strong external position.

The main sources of growth have been the expansion of export production, and high levels of private and public investment financed by capital inflow and foreign aid. Although copra and timber products still constitute the major part of the country's merchandise exports, there are a number of other strengthening export products--palm oil, fish and rice.

Economic performance, however, has suffered a serious setback in 1980 and 1981. Real GDP declined by 4-5 per cent in 1980, inflation accelerated to 16 per cent on an annual basis from its previous level of 10 per cent, while external payments recorded a deficit on both current account and overall. This substantial setback was due partly to a decline in the export volume of copra arising from a disruption of inland transportation and an adverse supply response by smallholders to a fall in prices. In addition to this volume factor, a deterioration in the terms of trade--reflecting lower export prices of copra and some other exports and higher import prices of oil--adversely affected the external account.

The response to these unfavorable developments has been a combination of adjustment measures and a recourse, for the first time, to commercial borrowing. For planning purposes, the authorities are assuming some recovery in export prices and volume in 1982, but they are keenly aware of the need to retain flexibility as circumstances develop. In particular, they accept that if the future course of events is less favorable than anticipated, there should be a review of policy.

Measures taken in early 1981 included a 20 per cent increase in non-oil import duties, continued wage restraint, and a 6 per cent devaluation of the SI dollar. It is of course still too early to assess with any certainty the effect of the devaluation and the tariff adjustment, but recent statistics suggest that external reserves are moving favorably. As indicated above, the Solomon Islands authorities do not anticipate improvement in the external account before 1982 at the earliest, and they have developed their policy response accordingly. Further measures on both supply and demand sides are envisaged in the financial program in respect of the requested stand-by arrangement.

Because the Solomon Islands quota is small both in absolute terms and relative to its economic potential--an aberration that, I hope will be corrected in the course of the Eighth Quota Review--the requested amount of only 50 per cent of quota is very moderate; the financial assistance under the stand-by arrangement would cover only one tenth of the projected current account deficit. Fund resources thus would cover only a small portion of the country's anticipated financing need, with the major portion of the deficit in the balance of payments being financed by borrowing in the commercial market. The foreshadowed $20 million of Eurodollar credit in the form of a syndicated bank loan is now virtually finalized, and one half of that amount is expected to be drawn in 1981. This will be an eight-year loan, with a four-year grace period and a spread over LIBOR of 0.875 per cent. Given the current low level of external debt, this borrowing is not expected to generate any debt management problems for the country. Taking into account the full drawing down of this loan, the external public debt service ratio is projected to be about 3 per cent in 1982. I fully endorse the view of the Solomon Islands authorities that the successful conclusion of this commercial borrowing is an encouraging demonstration of the country's standing in the international financial community.

This is the first request for a stand-by arrangement by the Solomon Islands since it joined the Fund in 1978; the details of the financial program are well presented in the staff paper. It can be fully supported from every important point of view--the proposed program, the balance of payments need, the policy framework within which it is made, and the timing of the request.

Some question may arise whether a larger recourse to the Fund's resources would be appropriate. As indicated above, the largest amount likely to be available from the Fund would not meet the total foreshadowed financing requirement. At the same time, there is a minimum level at which commercial borrowing can be undertaken efficiently and economically, and the authorities also wished to take the opportunity of a favorable market reception to ensure their access to the total possible financing requirement for the forthcoming period. However, the authorities equally wish

to establish a working relationship with the Fund as a basis for a possible more extensive arrangement in the future. It seems sound from all points of view to make this first step a moderate one. I understand that it is the authorities' view that they will be prepared to approach the Fund for the use of augmented resources if circumstances in the future do not not turn out as they envisage now.

In summary, the Solomon Islands authorities, confronted with adverse external circumstances, are planning on the basis of some improvement in their external situation in 1982. Their strategy is to contain domestic demand, to pursue adjustment, and to finance the external deficit in the interim. This seems an appropriate course, particularly since the authorities emphasize their intention to monitor developments carefully and their willingness to review their basic strategy if the anticipated improvement in the external situation does not occur in 1982.

Extending his remarks, Mr. Prowse explained that he had been fortunate enough to be able to revisit the Solomon Islands some time after the visit by the Fund mission. He had been extremely impressed by the administration; indeed, the capacity of the senior members of the administration together with the resource endowments of the Islands were perhaps the strongest factors in giving hope for the eventual viability of the country. It was worth noting that there would be virtually no external aid in the revenue budget for 1981/82; external aid was confined to the capital budget. On the other hand, the population was growing by 4 per cent a year, a rate that did not leave the authorities many options with regard to the need for investment in infrastructure and productive capacity. There was so far no official policy on population growth, a matter that the authorities would no doubt have to consider in the future.

On technical matters, Mr. Prowse went on, Executive Directors might wish to bear in mind, first, that the figures for domestic credit expansion could be rather misleading, if only because traditionally domestic sources had played a minor part in the provision of credit to the economy of the Islands. The structure was changing, and the domestic generation of credit was becoming relatively more important. Second, there seemed to be a difference of view between the staff and the authorities about the possible role that interest rates could play, not only in the Solomon Islands but also in similar economies. The authorities believed that savings were not interest elastic, and that the effect of raising interest rates would be not so much to mobilize savings but rather to add to the cost of local investment financed by any savings there might be. It was a point on which the views of the Solomon Islands authorities certainly bore taking into account.

The request by the Solomon Islands, the first since the country had joined the Fund in 1978, was a textbook case, Mr. Prowse considered. The country had a strong economy with good potential despite the large

population growth. The authorities were seeking assistance in tackling what they considered, probably correctly, to be a short-term setback, and they had made their request at an early date. The amount being sought was small relative to the country's economy, but the authorities had recognized that if the expectation of an improvement in export prices in early 1982 did not materialize, further adjustments would be needed. They also understood that the present level of external commercial borrowing could not be maintained if external factors continued to be adverse for long. In those circumstances, he invited the Executive Board to approve the request by the Solomon Islands.

Mr. Price commented that the Solomon Islands were fortunate in being well endowed with natural resources, whose full potential had yet to be realized. Economic performance had been encouraging until 1980, when the Islands had faced a number of setbacks. While some of them, like labor problems, had been internal, there had also been a marked fall in export prices. In 1979 the terms of trade had improved by 36 per cent, and there had been a good growth in export volume as well as a growth of import volume by as much as 46 per cent. In 1980, however, the terms of trade had deteriorated by 6 per cent, and export volume had remained stagnant. In consequence, the growth in the volume of imports had had to be cut back sharply from 46 per cent in 1979 to 12 per cent in 1980, and even then there had been a marked deterioration in the current account of the balance of payments. The swing had in fact been from a surplus of about 9 per cent of GDP in 1979 to a deficit of 8 per cent of GDP in 1980. With the prospect of a further decline in the terms of trade by nearly 25 per cent in 1981, there was no immediate hope that the current account would improve to a sustainable position in the near future.

In the presence of such large swings in the terms of trade, it was difficult to know how much adjustment the Solomon Islands authorities should try to undertake, Mr. Price remarked. The intention to expand economic growth by bringing underutilized natural resources into production was clearly a sound one, but he did hope that the authorities would avoid the dangers of running the economy too hard. The staff had drawn attention to the rapid expansion in broad money and domestic credit that had been taking place since 1978 and was expected to continue during 1981. While some expansion of domestic credit seemed likely to persist for several years to come in order to finance the recurrent costs of the major new private and public investment projects, it would be interesting to know whether the staff considered that the expansion in credit was likely to lead to inflationary pressures in future years.

He could support the authorities' broadly stated objective to use fiscal policy as a means of mobilizing domestic resources and to restrain the growth of current expenditures, Mr. Price stated. Some growth in government expenditure was an inevitable consequence of the Solomon Islands' development strategy and the ambitious investment program, but he was rather disturbed by the rapid growth in the budget deficit. The revenue measures taken in 1981, together with the efforts to restrain public sector wage awards, were commendable. However, given the increase

by more than 50 per cent in the budget deficit to a figure approaching 7 per cent of GDP for 1981, it would be interesting to know whether there was really no scope for some upward revision in income tax rates and whether there was any potential for improving expenditure control and monitoring techniques. He wondered whether it would be possible to maintain the present wage restraint when differentials were being eroded and a decline in real wages seemed likely for the third consecutive year. The staff seemed to have made a good case for increasing the current highly negative real interest rates to levels more likely to encourage a greater mobilization of private savings.

The proposed use of SDR 1.6 million from the Fund was modest, and he welcomed the agreement, Mr. Price stated. He was however less happy with the SDR 20 million of Eurodollar borrowing. He wondered what interest rate assumption had been used for LIBOR to which the Euroborrowing was tied, and he did not understand how the debt service ratio could remain as low as the staff had suggested it would. It would be useful to know what the debt service ratio was likely to be in the late 1980s, when the loan would have to be repaid. What was worrying was that the debt service itself might then represent a fairly substantial proportion of export receipts. While the proposed Eurodollar loan was in itself perfectly reasonable, there might be little scope for further such loans in the future. That only emphasized the need for a rapid balance of payments adjustment and the importance of using the present loan wisely.

Mr. Leimone stated that he could support the request by the Solomon Islands for a one-year stand-by arrangement. He noted that the staff had cited an adverse movement in the terms of trade and a shortfall in copra and fish exports--all of which were outside the authorities' control--as the primary causes of the weakened balance of payments position. He would however like to know to what extent the rapid growth in domestic credit in 1979 and 1980 and the increase in the fiscal deficit might have contributed to the pressure on the balance of payments, even though he recognized that import growth had slowed dramatically in 1980. In any event, the authorities appeared to be taking appropriate measures to deal with the deterioration in the balance of payments, in particular by a devaluation in March 1981, by measures to increase budget revenues, and by steps to restrain the growth of public sector wages. The public sector investment program, which emphasized domestic energy production and the expansion of export-oriented sectors, also seemed to be broadly appropriate for the medium-term adjustment. Nevertheless, the authorities would have to exercise caution to prevent development expenditures from growing too rapidly, if they wished to avoid future excess demand problems. He also welcomed the steps being taken to strengthen monetary policy instruments. In addition, he would urge the authorities to raise interest rates to positive levels as a means both of reinforcing their efforts to attract external capital and of bringing about an efficient allocation of investment.

Mr. Kharmawan considered that the request by the Solomon Islands was timely in view of the deterioration in the country's current account position. So far as interest rates in developing countries were

concerned, more work was probably required by the staff. Any developing country disliked raising its rates because it feared an increase in the cost of economic development. On the other hand, naturally, unduly low rates failed to attract savings. Before commenting on interest rates in the Solomon Islands, he would have to know the degree of monetization in the country; if there was little monetization, savings would not accrue however high interest rates might be. In such circumstances there were many other traditional forms of savings. He therefore hoped that the staff could look into the point on a rather broad basis. While in some developing countries it might be necessary to raise interest rates in order to avoid a capital outflow, in others it seemed likely that monetary policy would be far less effective.

The staff representative from the Asian Department explained that the relatively rapid expansion of domestic credit had been due in part to the small proportion of the country's liquidity needs that had been provided locally until very recent times. Consequently, the base of domestic credit in the Solomon Islands was very small. To illustrate, the cost of just three bulldozers was $1 million, a sum equivalent to 6 per cent of total outstanding domestic credit or 15 per cent of the growth of private sector credit forecast for 1981. In analyzing the financial flows in Solomon Islands, one had to consider the bulkiness of the ongoing development projects relative to the size of the economy. For instance, completion of the five-year hydroelectric power project would take up nearly 25 per cent of GDP. The project would be almost entirely financed by concessional aid, and the outlay for 1981 would be small compared with the larger expenditures that would have to follow. But even that small expenditure was equal to 3 per cent of GDP, most of it being reflected in imports of machinery that swamped the balance of payments flows. Similarly, the costs associated with the hydroelectric power project would be some 30 per cent of the current account deficit for 1981.

The economic program did nevertheless contain substantial adjustments of the external account to offset the deterioration in the terms of trade, the staff representative maintained. The adjustment was being made by reducing consumption and increasing the volume of exports, instead of slowing down the rate of investment. He agreed that it might be wondered whether a decline in real wages for the third consecutive year would not lead to considerable political pressure. The authorities, however, having made their decision, were determined to see it through.

Some Executive Directors had inquired whether there was not room for increasing the rate of income tax; however, the average effective tax rates for individuals were about 10 per cent and for companies about 24 per cent, figures that were rather high for developing countries, the staff representative went on. Customs duties were still rather low, and the authorities intended to look into that point in the coming year. As to whether the rapid expansion of broad money and credit was likely to create inflationary pressures, it could properly be said that nearly all the inflation in Solomon Islands was imported. Very few locally produced

goods entered into the consumer price index, the only one available. The bulk of the inflation in 1980 had been caused by increases in the cost of such imported goods as sugar, beef, and petroleum products.

The staff had not made calculations of the debt service ratio beyond 1982, because it was uncertain how much the authorities would actually draw on their SDR 20 million Eurodollar loan, the staff representative from the Asian Department said. The 3 per cent debt service ratio mentioned in the staff report referred to the ratio of debt service to exports of goods and services. The interest rates assumed in connection with the Eurodollar loan was 19 per cent. The staff had had extended discussions with the authorities on the question of interest rates. Nominal interest rates had not changed over the previous several years, while inflation had accelerated. The authorities did however have doubts about the extent to which savings were sensitive to interest rates; they would consider the question of an appropriate level of interest rates later in the year, when they expected to start lending to commercial banks. The extent of monetization in the Solomon Islands was increasing fairly rapidly as more and more resources were being drawn into production. Broad money would have to expand fairly substantially in years to come if there were to be sufficient funds to accommodate the increase in output. On the question of the interest rate, it was certainly true that in 1979, when export earnings had been high and the purchasing power of the population had increased substantially, imports of consumer goods had risen quite rapidly. While it was understandable that people should buy consumer goods that they had desired for a long time, it was arguable that had interest rates been more attractive some of the additional expenditure could have gone into savings, and the mission had made the point to the authorities.

Mr. Kharmawan remarked that the argument that with higher interest rates and an increase in export earnings, the population should be encouraged to save money instead of spending it for consumer goods was rather questionable. If income was low the propensity to save was smaller than when income was high, and there must be a whole category of people in the Solomon Islands whose income was very low and who were tempted to improve their standard of living by buying goods when they had a little surplus money. He did not believe that they should be blamed for so doing.

Mr. Prowse commented that, in addition to the point made by Mr. Kharmawan, it was perhaps worth noting that the infrastructure for financial saving was neither comprehensive nor extensive. The authorities did intend to extend the banking network and savings facilities into the countryside. But at present there was no way in which many people living outside the towns could make financial savings. Moreover, interest rates in the Solomon Islands were high compared to those throughout the Western Pacific. In the particular circumstances of the Solomon Islands, moreover, the spread between deposit rates and lending rates was very high; consequently, a modest increase in deposit rates would lead to lending rates that would be well above the rate of inflation. Borrowers were in fact not enjoying the negative interest rates from which depositors were

suffering. On the level of taxes, a new tax schedule introduced as a result of a working party review in 1979 started at 15 per cent for the first $1,000, increased by 2 percentage points for every successive $1,000, and reached a maximum of 45 per cent for taxable incomes in excess of $15,000.

The Executive Board then turned to the draft decision, which it approved.

The decision was:

1. The Government of Solomon Islands has requested a stand-by arrangement for a period of one year equivalent to SDR 1.6 million. In the letter attached to EBS/81/101, Supplement 1, the Government of Solomon Islands states the objectives and policies that it will pursue.

2. The Fund notes the objectives and policies stated in the letter and approves the stand-by arrangement in accordance with the request.

Decision No. 6865-(81/82), adopted
May 29, 1981

2. AUSTRALIA - 1981 ARTICLE IV CONSULTATION

The Executive Board considered the staff report for the 1981 Article IV consultation with Australia (SM/81/107, 5/11/81; and Cor. 1, 5/29/81). They also had before them a report on recent economic developments in Australia (SM/81/114, 5/19/81).

Mr. Prowse made the following statement:

The Australian authorities are in general agreement with the staff report for the 1981 consultations with Australia, which they commend as a perceptive and thoroughly competent analysis of the Australian economic situation and prospects. In particular they agree with the staff views in respect of greater emphasis on fiscal restraint and of preference for reductions in protection rather than exchange rate appreciation. Accordingly, this statement is limited to some brief remarks on overall economic policy and on some recent policy initiatives.

In recent years economic policy in Australia has had the premise that sustained economic growth can be achieved only through control of inflation and a strengthening of the private sector. In pursuit of this objective the Australian Government has pursued firm fiscal, monetary, wage, and external policies directed at curbing inflation and removing fundamental constraints to recovery. This policy has involved deceleration in Commonwealth

government outlays, reduction in the Commonwealth budget deficit, control of the growth in monetary aggregates, and strong advocacy of wage restraint.

In the event, inflation has been reduced, demand and activity have increased, business confidence has been bolstered, and there is now more optimism for the future. The rise in activity is clearly outlined in the report, and I merely note here than the 4.3 per cent rise in nonfarm products in the 12 months to the December quarter of 1980 is a strong performance, particularly when much of the rest of the world is showing little or no economic growth.

It may be said that such growth is not surprising given Australia's abundant resource endowment, but, as the staff report points out, a rich endowment of resources is no guarantee of good economic performance. The staff report goes on to comment that the anti-inflation policy pursued in recent years has enabled Australia to be in a position to take advantage of its resource base and favorable circumstances.

Australia has, indeed, reduced its inflation rate in recent years, and it is currently below the average rate for OECD countries. This performance may be relatively good by international standards, but the Australian authorities do not regard the present inflation rate in Australia as an adequate basis for sustainable growth, and their concern regarding the acceleration in the underlying inflation rate is greater than is evident in the report. Consequently, they see a need for restraint in all aspects of policy and are less sanguine than the staff regarding the short-term growth potential of the Australian economy. In particular, since the mission's visit to Australia, the first investment anticipations data for 1981/82 have become available, and these show even stronger prospects than were shown by the corresponding survey for 1980/81. Taking this with the strength of consumer demand, it is evident that the acceleration in private domestic demand is widespread and the task of "making room" for it via public sector constraint accordingly more important.

The basic philosophy of the Government toward economic policy of course remains unchanged. In order to maximize the opportunities presented, inflation must be controlled. Policies will continue to be directed toward "making room" for productive private sector activity in a manner consistent with further sustained progress in reducing the rate of inflation.

A number of significant policy steps have been implemented since the staff mission to Australia.

On April 30, 1980 the Government announced the results of a recent review of government functions. In brief, the Federal Government announced a number of steps to reduce its own call on

resources by transferring some operations to the private sector and by abolishing some services. It is also moving to significant deregulation of industry. The review will entail an overall reduction in public sector employment of 17,000 and a reduction in Commonwealth budget outlays of about $560 million, or 1.5 per cent of estimated outlays for 1980/81.

In addition, a number of subsidies and financial concessions will be removed in support of the principle that the "user" should pay the full cost of any service.

These measures do not represent a single, isolated event. The Government will be making continuing efforts leading up to the budget in August 1981 to effect further savings in outlays.

In pursuit of further reductions in the budget deficit via restraint in outlays, the Government also has announced significant changes to its health policy. Previously the Commonwealth Government and the states shared equally the financing of hospitals. On April 29, 1981 the Commonwealth announced that it was ending the cost-sharing hospital funding arrangements and absorbing its funding of hospitals into its general revenue grants to the states. At the same time, it announced it was reducing the level of funding and plans to gradually reduce it further. The effect is that the states will now have to raise, through higher charges or taxes, the funds to meet the gap left by the reduction in Commonwealth funding.

The Government's recent moves in this area, however, are not limited to the developments outlined above. Probably more important were the significant changes announced on May 4, 1981 in the financial arrangements between the Commonwealth and state governments.

It is relevant that during the Article IV consultation in January 1980, several Directors suggested that the Commonwealth Government's firm resolve toward fiscal restraint might be curtailed by limitations on its ability to exercise firm control over total public sector expenditure, in particular over the expenditure of the state governments. However, the Commonwealth Government has consistently stressed that in this regard it is the overall public sector deficit that is ultimately important. Whether it is a semigovernment authority or the Commonwealth Government financing its own departmental activities, it constitutes the same competition for resources with a growing private sector.

In recent years the Commonwealth Government's success in reducing its outlays had not been matched by similar restraint on the part of state and local governments. In an attempt to reduce overall public sector outlays the Commonwealth Government has now limited its "general revenue" grants to the state governments for 1981/82. The grants are the principal source of funds provided

to the states. The outcome of the May 4 conference between the Commonwealth and the state governments was that for 1981/82 there will be a 10 per cent increase in total funds going to the states, which could well represent a decline in real terms. This should force state governments to restrain the growth in their outlays and to finance a larger part of their expenditure from their own sources of revenue from taxes and charges.

In reviewing these developments, I wish to draw attention to the warning note in the staff report that difficulties may be encountered if there is excessive reliance on monetary policy and the recommendation that fiscal policy must bear a larger share of the anti-inflation strategy. As I say my authorities endorse this view, as is evidenced by these recent policy initiatives. It is evidence of their commitment to the fiscal objective that the authorities now expect that the Government will reach its financial targets in the current financial year ending on June 30, including the first budget surplus in seven years.

The report makes reference to the "present system of wage determination" and the problems that it could create by translating wage differentials that might, and should emerge in the course of resource development into generalized wage acceleration. The authorities in Australia are well aware of the problems associated with a centralized system of wage determination, and on May 4, 1981 a National Inquiry into Wage Determination and Industrial Relations was announced. This will be the first such inquiry (outside of the institutional system) since Federation, and it will serve inter alia as a full review of the effects of the present "system" and the contraints it imposes on the proper functioning of labor markets.

One other aspect of the staff report requires a brief comment, and that concerns the question of protectionism.

The Government has committed itself to a gradual lowering of protection with advance notice to be given to industry in order to facilitate the adjustment process. Nevertheless the liberalization of protective measures can be a difficult political process. Considerations with respect to the "protection of jobs" cannot be easily disregarded, but there has been in recent years a change in the content of the debate about policy in this regard and in the community's attitude toward protection. The issue is being increasingly debated and there is a growing awareness of the high cost to be paid for the maintenance of jobs via protection as the cost of this becomes increasingly apparent.

To conclude, I would like to pass on my authorities' thanks for the very useful and constructive discussions in Australia last March, as well as for the very informative papers before us.

Extending his remarks, Mr. Prowse paid tribute to the members of the Fund mission for having gained the confidence of the Australian authorities and for having established what seemed to be an unusually forthcoming and frank working relationship. On a more general level, there seemed to be a tendency, which might be useful for analytical purposes, to talk about stabilization problems in the short term and adjustment problems as being long term. That distinction could be carried too far. In a market economy like that of Australia there was only one basic set of problems, his authorities considered. The economy was a dynamic and integrated one, and what was important was to adopt a sound approach to management. They did not believe that adjustment problems could be considered as a separable self-contained matter. Seen in that light, the resources boom had to be treated as part of the problem of managing the economy correctly. Similarly, the potential growth in resource development and expenditure was not a unique problem; it was one of providing an environment where the supply and demand for resources and for related financing could respond to market pressures.

Mr. Bakker commented that the economic performance of Australia over the past year or so had been generally satisfactory; he tended to agree with the staff that the policies followed since the mid-1970s had laid a sound basis for the recovery of economic activity. The result of those policies had been the restoration of confidence on the part of foreign and domestic investors, predicated upon a recovery of profit. There were three major fields in the Australian economy where decision making would be needed, namely, the containment of inflationary pressures, the prospects for Australia's balance of payments in the medium run, and the exchange rate policy. The inflationary pressures that seemed to be building up were apparently mainly of domestic origin. Australia's wage structure, which was particularly rigid, tended to lead to a rise in wages across the board whenever there was a shortage in the skilled labor market, and the partial indexation of wages appeared to have been offset by a considerable degree of wage drift. He noted that the staff viewed the acceleration of wage inflation as a danger signal to some overheating of the economy. In passing he wondered how much emphasis should be given to the existence of a GDP gap of some 4 per cent, especially as the figure was virtually unchanged from the level of the previous three years. In any event, he agreed with the staff and the authorities that, in the wake of increased private activity, fiscal policy would have to take a large share of the burden in the anti-inflationary struggle. In that context, he would be interested to know how civil service salaries had changed compared with those in the private sector.

The coming on stream of large investment projects necessitated substantial outlays on infrastructure by state governments, Mr. Bakker considered. The states had tended to act procyclically in the past, and it had been difficult to coordinate fiscal policy. The recent sharp cuts in public spending announced by the Prime Minister might well only amount to the Commonwealth Government's setting its own house in order by shifting part of its task to the states.

On the external side, Australia seemed to be in a good position to run a current account deficit in the medium term, Mr. Bakker commented. The sharp improvement in the current account for FY 1979/80 had been only temporary, apparently mainly caused by a surge in wheat shipments to China and Russia and by other food exports. He would tend to place less emphasis than the staff on the improvement in the competitive position of Australia. It might well be that part of the improvement had been offset by an increase in transport costs, as shown by the continued substantial deterioration in the invisibles account. Similarly, developments in nonfood exports suggested that it had been mainly the negative growth differential between Australia and its partner countries in 1979/80 that had induced manufacturers to seek nondomestic outlets.

A current account deficit in the range of 3 per cent to 4 per cent of GDP seemed quite sustainable, Mr. Bakker commented, taking into account the prospective capital inflows relating to investment projects. The prospects for recovery in the current account in the mid-1980s, when the investment projects would bear fruit, were good; thus, there seemed little likelihood of a crisis of confidence, as had occurred in the past. Indeed, large inflows of capital over the past few months had allowed official reserves to rise to $3 billion in late April, an increase of $1 billion since the end of 1980. However, a continuation of large private capital inflows could put further upward pressure on the exchange rate. In those circumstances, a further buildup of official reserves, which were still relatively low, would be appropriate if accompanied by a proper neutralization of the expansionary effects on the money supply, through an effective containment of domestic credit expansion. A further appreciation of the exchange rate seemed unwarranted in view of Australia's competitive position and its large current account deficit. It did, however, seem appropriate to continue attempts to stabilize the effective exchange rate over longer periods. He endorsed the staff view that the time was right to take upward pressure off the exchange rate by an early reduction of the level of protection, thus increasing competition in the domestic market, putting a rein on inflationary pressures, and perhaps on wage inflation, by releasing resources to the more dynamic sectors. Australia still had a relatively closed economy, with exports accounting for only 19 per cent of GDP. Opening up the economy, especially to developing countries, would constitute a contribution to the international adjustment process.

A striking feature of Australia's trade picture was the rapid increase in its surplus with non-oil developing countries, from a relatively stable level of $1 billion from 1975 to 1978 to over $2.5 billion in 1980, Mr. Bakker commented. The change had occurred almost entirely at the expense of Asian countries. He would therefore be interested to learn whether there were any preferential trade treaties with Asian countries, and whether there were any prospects for increased exports from those countries, especially in the Southeast Asian region, if the tariff and quantitative barriers were reduced by Australia.

Mr. Price said that he could endorse the general conclusions in the staff appraisal, and he was sure that the staff's optimism was justified. The Australian authorities were to be commended on the economy's performance over the past year, and he agreed with them that a firm anti-inflationary strategy must continue to have priority if the recent successes were to be maintained.

On the question of the balance between monetary and fiscal policy, Mr. Price said that he agreed with the staff that there appeared to be only limited scope for a further tightening of monetary policy. Increases in interest rates or a tightening of credit would probably only increase the already buoyant capital inflows. Consequently, while he was not advocating any relaxation of the present monetary stance, he welcomed the authorities' recognition that there was scope for allowing fiscal policy to play a greater role in the anti-inflation efforts. As he understood that the 1981/82 budget was being fiercely debated in Australia, he would be interested in knowing what staff considered the prospects to be for further fiscal tightening. Progress toward reducing the real growth of public expenditure had been rather limited.

The problems of expenditure control in Australia, where a significant component of public sector spending was not directly controlled by the central authorities, had been discussed previously by the Executive Board, Mr. Price recalled. It did however seem possible that measures transferring welfare services from the Commonwealth to state budgets might only increase the already sizable borrowing requirements of the states. The prospect of another budgetary deficit in 1980/81 emphasized the need to achieve more radical public expenditure cuts, or even the need to introduce some form of supplementary taxation. While he realized that the authorities were reluctant to increase indirect taxation on the grounds that its short-term effects were not consistent with an anti-inflationary strategy, a once-and-for-all rise in the consumer price index resulting from the imposition of a retail sales tax would be preferable to overheating in the longer run.

In the field of wage inflation, Mr. Price said, he had been interested in the recent changes in wage award procedures. It remained to be seen, however, whether the new system would avoid the difficulties experienced under the previous wage fixing system, whereby fully indexed awards were regarded as a minimum and were exceeded under the guise of productivity payments. Furthermore, externally induced price movements were apparently still to be passed on. The main innovation of the new system--the discretion to award 20 per cent of the CPI movement in the second annual hearing, along with adjustments for productivity and other variables--appeared to provide an incentive to wage negotiations, and could lead to the same pattern of real pay awards as under the earlier system.

The resource boom provided Australia with an interesting set of challenges and opportunities, Mr. Price considered. The current and prospective balance of payments surpluses would create an ideal climate

for the reduction, and eventual abolition, of foreign exchange controls and industrial protection. He hoped that the authorities would be prepared to take that course, rather than simply allowing the exchange rate to appreciate. Not only would the relaxation help to relieve the upward pressures on the exchange rate arising from capital inflows and enhanced export volumes; the greater access to manufactured imports that would follow ought to relieve bottlenecks in supply and stimulate greater efficiency in existing industries. With the tightening labor market in Australia, he hoped that the population at large would be able to see the wisdom of freer access to imported goods. A relaxation of the restrictions on certain kinds of foreign investments in Australia and increased private sector involvement in the provision of public services would also help to generate more competition in the economy and so improve economic efficiency more generally. In that connection, he would be interested in any information that could be given about the progress of the Campbell Committee, and the probable direction of its recommendations.

The increase in economic activity would boost the receipts of state and local governments, Mr. Price noted. Would those increases in receipts be offset by reduced Commonwealth grants to the states, or would they be used to finance additional local expenditure, thus leaving the already sizable budgetary requirements of the states virtually unchanged? Finally, the staff was correct to draw attention to the pressure on resources that the commodities boom would generate. He hoped that labor mobility and the wage determination system would prove sufficiently flexible to respond to that pressure and the consequent need for structural adjustment efficiently and without creating bottlenecks.

Mr. Nagashima stated that Australia was one of the few industrial countries that could benefit by increases in prices for energy and mineral resources. A rich endowment in natural resources was however no guarantee of good economic performance. He was therefore happy to note that the Australian authorities had been able to achieve considerable improvement in the economy, while taking full advantage of the favorable developments in the energy field. The strength of investment, the improvement in labor market conditions, and the stability of the exchange rate of the Australian dollar were particularly noteworthy. However, in the present circumstances, when the rate of inflation was still about 10 per cent and there was a risk of overheating the economy in the presence of a strong investment boom, it would be essential for the authorities to pursue the same anti-inflationary economic strategy as they had previously, until a clear sign of abatement of inflation appeared.

Taking up fiscal policy, Mr. Nagashima said that it was encouraging to note that the public sector deficit in terms of per cent of GDP had further declined to about 4 per cent in 1979/80, from about 5 per cent in the previous fiscal year, as shown in Chart 7 of the report on recent economic developments. However, the improvement had been due to the containment of budget outlays in the public sector, and the deficit of the state and local authorities as a proportion of GDP remained unchanged. Since the weight of the budget deficit of the state and local authorities

in the total public sector deficit had become considerably larger than that of the Commonwealth Government, it was all the more important to control the budget deficit of the state and local authorities if fiscal policy was to play a larger part in the anti-inflationary strategy, as urged by the staff. His chair was one of the several referred to by Mr. Prowse as having commented on the issue during the previous consultation with Australia. He was therefore particularly gratified that significant changes in the financial relationships between the Commonwealth and the state governments had been announced on May 4. They should contribute to reducing the budget deficit in the public sector as a whole.

It was encouraging to note that since December 1980 the authorities had taken several measures to tighten monetary control, including increases in and partial deregulation of various interest rates, and an increase in reserve requirements, Mr. Nagashima stated. He hoped that the growth of the money supply would thus be kept within the range officially projected for the current fiscal year. It would be difficult for the authorities to press strongly for a moderation in wage increases during the present shortage of skilled labor. The recent improvement in business profits might also weaken the resistance of enterprises to further wage increases. However, while some increase in real wage rates could be justified in industries where the growth of productivity was relatively high, union pressure and the present system of wage determination might lead to the upward adjustment of the entire wage scale, a change that would aggravate inflation and cause erosion of the competitiveness of Australian industries. He hoped that management and labor would establish a common understanding about the need for wage restraint in order to make progress in the containment of inflation. In that connection, the announcement on May 4 with respect to the initiation of a national inquiry into wage determination and industrial relations was welcome.

On the external front, Mr. Nagashima noted that the current account balance had improved sharply during 1979/80. However, a substantial deterioration was expected during the current fiscal year, with a further widening of the deficit for 1981/82. The deficit could clearly be financed by the large inflows of foreign capital associated with the investment boom, as apparently had happened with the previous mining boom that had ended in 1968/69. However, in the light of the present high energy prices, Australia's current account deficit as a proportion of GDP would probably have to be smaller than it had been in the 1960s if it was to be easily financeable; looked at from the other side, the continuation of a large deficit in terms of GDP might at least in part be an indication that the domestic economy was overheating. Although he could understand the staff view that Australia's relatively large current account deficit was beneficial to other oil importing countries, the Australian authorities should not be encouraged to incur such deficits. On the contrary, they should try to improve the current account position without relying on protectionist measures.

Mr. Leimone remarked that the Australian authorities had made commendable progress since the mid-1970s in reducing inflation while achieving a more vigorous rate of economic growth. Unemployment was higher than it had been earlier in the decade but had been falling since mid-1979. Nevertheless, he shared the staff's concern about the dangers of the recent acceleration in wage inflation and the need for a reduction in public sector expenditures to make room for prospective investments in the natural resource sector, if future overheating of the economy was to be avoided. He was therefore greatly encouraged by the announcement on April 30 of major budgetary changes designed to reduce the size and role of the Commonwealth Government in the economy.

However, he differed with the staff on the assessment of exchange rate policies, Mr. Leimone noted. The staff seemed to accept too readily the rigid system of exchange controls and exchange rate intervention in use in Australia by emphasizing the stability of the exchange rate brought about by the present system. In light of the favorable external capital inflows, both present and prospective, the current exchange rate policies might be constraining an appreciation of the currency and, through intervention, complicating the task of monetary control. The policies might also be holding down a higher level of imports, which would be conducive to an easing of inflation and a greater and more efficient expansion of productive capacity over the medium term. In other words, the present exchange rate regime might be keeping the medium-term growth potential of the Australian economy below its optimum level while yielding a higher inflation rate than necessary. He would also have been glad if the staff had focused at greater length on the instruments of monetary control, in particular the extent to which interest rate controls on financial instruments and intervention in exchange markets might have complicated the task of controlling the growth of monetary aggregates. It would be valuable to know the likelihood that the Government would implement recommendations for liberalizing the financial market policies, as proposed by the Committee of Inquiry. Finally, he strongly endorsed the view that an early reduction in the level of protection was needed to improve the allocation of resources and to contribute to better global adjustment.

Mr. Winkelmann congratulated the Australian authorities for the skillful policy that they had followed, leading to a lowering of inflation, a resurgence of confidence among private investors, a reduction in the public sector deficit, and encouraging growth. He had been particularly impressed by the apparent intention of the authorities to compel the users of state-subsidized services to pay the full costs of those services as a major step in maintaining balance in the Australian economy. It was particularly encouraging to see that there was at least one country in the world that had achieved a high growth rate and seemed to be maintaining it. Nevertheless, it did seem likely that the Australian economy was about to overheat. In the previous six months employment had risen by 4 per cent, wage drift was increasing, and there had been intensive investment in capital-intensive industries. He therefore wondered whether the benefits of the boom had overflowed into other sectors such as the service industries.

The lack of flexibility in the wage determination system seemed to imply that if there were large wage increases in profitable sectors of the economy, those increases were spread by the wage determination system itself to all other sectors, where they were likely to lead to cost-push and demands for protection, Mr. Winkelmann noted. In those circumstances, it was important to examine the policy mix to be used in the months ahead, and he could only agree with the staff that more reliance ought to be placed on fiscal policy. However, while it was the general view in many countries throughout the world that fiscal policy should play a more important part, in a situation like that of Australia, it seemed apparent that in the short run at least monetary policy would have to play the key role, leaving fiscal policy to try to tackle the Government's deficits and provide more room for expansion of the private sector in the longer term.

It was interesting to see that there was a close correlation between the size of the broad money base and nominal GDP, Mr. Winkelmann considered. In FY 1977/78, for instance, the increase in broad money had fallen to 8 per cent, and nominal GDP had fallen similarly. In 1978/79, the two factors had moved up together. While the correlation might not have much econometric value, it did give some indication that broad money played a considerable role both in providing the necessary resources for the expanding economy and in preventing nominal demand from becoming too large.

During the next two or three years, before the most recent investments came to fruition, the current account deficit was likely to widen, and it would be necessary to attract foreign capital, Mr. Winkelmann considered. For that reason it might also be necessary to raise interest rates. He did not clearly understand however whether it would be possible so to adjust interest rates as to attract enough capital to offset the current account deficit without risking having to revalue the exchange rate. The authorities had been following a skillful exchange rate policy in recent years, leading to stability in the mid-1970s after the imbalances of 1974/75, and offsetting undue changes in unit labor costs. In the previous two years moreover the exchange rate had been used in the fight against inflation. Nevertheless, like Mr. Leimone, he wondered whether, in an expanding economy where the share of exports in GDP was increasing rapidly, a system of administered exchange rates without any forward market could provide the economy with timely indicators enabling both domestic and foreign interests to benefit to the full. He hoped that the staff would be able to comment on the point.

In the circumstances he would encourage the Australian authorities to move faster in reducing the degree of protection accorded to Australian industries, Mr. Winkelmann concluded. While he understood that the matter was a sensitive one, it was encouraging to know that the topic was being debated in Australia, and the current boom might be a good opportunity for reducing protection. In the long run such a change would be beneficial not only to Australia but also to many countries in Southeast Asia. The staff comment about Australia's benefiting from increasing fuel costs,

which tended to protect domestic industries from imports, was interesting. More generally, the artificial differences imposed by high fuel costs for shipping could to some extent be offset by a reduction of trade barriers. He therefore hoped that the Australian authorities would be encouraged to bring the economic system more fully into the world as a whole, thus making a major contribution to the adjustment process.

Mr. Sigurdsson said that he was grateful to Mr. Prowse, not least for his observation on the dangers of making too sharp a distinction between stabilization and adjustment policies. He agreed that what was needed was a sound overall approach to economic policy as a means of providing the framework for stable solutions in both the short term and the long term. It was clear not only from the staff report but also from Mr. Prowse's remarks that Australia was one of the few countries that had managed to improve its economic performance since the mid-1970s. He readily agreed with the staff that the policies followed in recent years deserved credit for having enabled Australia to take advantage of favorable circumstances in restoring economic activity and lowering inflation. It was a sad comment on the state of the world economy that a country with a growth rate of 2-3 per cent, an inflation rate of 10 per cent with some risk of acceleration, and an unemployment rate of 6 per cent was seen to be a relative success.

In the field of fiscal policy, Mr. Sigurdsson went on, it was noteworthy that the public sector borrowing requirement as a proportion of GDP had been brought down from 6.5 per cent in 1975/76 to an estimated 3.5 per cent in the current fiscal year, even if the outcome had been achieved by increasing the tax burden rather than by reducing expenditure. It was also noteworthy that in the present year--an election year--budget expenditures in real terms were expected to increase by 3 per cent. Such an increase did not seem to fit well with recent government declarations regarding sweeping cuts in the public sector. It would be interesting to hear the staff's comment on the point.

Monetary policy had been an important element in the counterinflationary efforts, but some slippages had been appearing recently, Mr. Sigurdsson considered. Excessive reliance on monetary restraint might well run the risk of enlarging the capital inflows associated with the prospective investment boom based on Australia's wealth of natural resources. Such an increase in capital inflows would either defeat the purpose of monetary restraint or lead to an excessive appreciation of the Australian dollar. As the first quarter of 1981 had seen a record capital inflow, the topic was not merely academic. Greater emphasis on fiscal policy appeared to be called for, and he welcomed Mr. Prowse's statement that the Government was firmly resolved to maintain fiscal restraint. It would be interesting to hear the comments of Mr. Prowse and the staff on the prospects for a change in the policy mix.

Over the medium term, changes in the balance of payments also raised some trade policy questions, Mr. Sigurdsson asserted. The prospective strength of the Australian resource base and the increased protection of

high energy prices for shipping ought to provide the occasion for a reduction in Australia's protective system. He agreed with the staff that a reduction in tariffs and an easing of import restrictions would be preferable to an appreciation of the currency, mainly because it should in the long run improve the allocation of productive resources and enhance the growth potential of the economy. The mention of protectionism could hardly fail to bring up the question of agricultural protectionism, or what the staff called "restrictions on access of some of Australia's main exports to certain markets." During the discussion on the World Economic Outlook, both the Argentinian and the Australian chairs had commented on the need for the Fund not to omit reference to agricultural protectionism in considering trade policy. While Tables 41-44 in SM/81/144 were most informative, they were more qualitative than quantitative. He wondered whether there was information on the quantitative importance of trade barriers for Australia.

The staff papers seemed to show that the labor market situation called for special attention, Mr. Sigurdsson commented. Although unemployment was at a fairly high level, shortages of certain types of skilled labor had appeared, and wage inflation was accelerating once again. In such a situation, measures designed to improve the mobility of labor could be helpful. It would also be important for the authorities to continue actively to try to reach consensus with labor on the need to restrain nominal increases in pay, even if the Government did not have any direct influence on wage determination. The allocative role of rates of pay had to be recognized as an important element in the adjustment process. In that connection, Mr. Prowse's reference to the recent decision to establish a national inquiry into wage determination and industrial relations was of great interest, and he wondered whether Mr. Prowse or the staff would care to comment further on the labor market issues.

He noted that the staff had praised Australia's exchange rate management for achieving both stability and flexibility, Mr. Sigurdsson stated. It had also referred to the forthcoming report of the committee of inquiry into the Australian financial system, which would present an evaluation of the costs and benefits of a free market approach compared with the present administered system. He wondered whether the staff felt that the present system was quite adequate, and he would be interested in Mr. Prowse's comments. In conclusion, the Australian economy was clearly in relatively good shape, and the prospects for continued favorable development ought to be good. If such expectations were to be realized, a liberalization of the trade regime both within Australia and between Australia and the international community would make a great contribution. Mr. Prowse's comments on the gradual lowering of protection with advance notice were most helpful.

Mr. Aulagnon commented that the 1981 Article IV consultation with Australia would provide an opportunity for assessing the extent of the progress made by the Australian authorities since 1975, when they had begun to give priority to solving the main difficulties affecting the long-term future of the economy, difficulties that had resulted mainly

in an unexpectedly high degree of inflation, serious erosion in competitiveness and in the profitability of enterprises, and in excessive budget deficits and monetary expansion. He could agree with the staff that the policies adopted since 1975 had in the main been successful, in the sense that they had proved to be the main factor in the recovery of exports and investment, as well as in the significant decline in inflation from the previous high level.

One remaining question however was whether the improvement achieved hitherto was sufficient or whether further efforts were still needed, Mr. Aulagnon went on. In any event, the authorities remained committed to the containment of inflationary pressures through the pursuit of a restrictive monetary policy, greater emphasis on fiscal policy to reduce the Federal Government's call on resources, and wage restraint. Unfortunately, the current account deficit for FY 1981/82 was expected to represent about 4 per cent of GDP, compared with 1.5 per cent in 1979/80, and it might be still larger the following year. Public borrowing requirements seemed likely to put additional burdens on monetary policy, and wage inflation could again exceed 10 per cent a year. The less than satisfactory figures could perhaps be seen as the consequence of the authorities' success in promoting a healthy base of economic development; they should prove easier to dealt with than in most developed countries faced with problems of rising stagflation.

The most obvious risk facing the Australian economy at the moment, Mr. Aulagnon considered, seemed to be that of an excessive surge in real wages fueled by a shortage of skilled manpower. The increase in earnings during 1980 had exceeded 14 per cent, a figure probably inconsistent with the Government's targets for inflation and monetary policy. The most efficient use of increasingly scarce manpower would call for appropriate wage differentials between sectors of activity as a way of bringing about the necessary transfers from slower growing and more capital intensive industries toward activities in which the investment boom was concentrated. The centralized system of wage determination appeared to stand in the way of sectoral differentiation and could thus defeat the attempt to bring about transfers because of the dangers of raising the whole wage spectrum. He noted, like others, that the authorities were aware of the problems associated with the system of wage determination, and that they had announced a national inquiry into wage determination and industrial relations. Nevertheless, some further appropriate policy measures ought perhaps to be envisaged. If they were not, the authorities would have to choose between scaling down present investment plans, something that did not appear advisable, and easing import restrictions.

The staff had indicated that the issue of the cost of protection was being increasingly debated in Australia, and perhaps some move toward lower levels of protection in sectors where there were still quantitative restrictions might be conceivable in the near future, Mr. Aulagnon remarked. The issue of the appropriate degree of protection of national industries was of course very sensitive, and he could understand that a cautious approach was warranted in most cases. However, the present

circumstances in Australia seemed to provide an unusual opportunity in which both the short-term and the longer-term interests of the country would clearly be served by a significant easing of protectionism. Consequently, he would associate himself with the views expressed both by previous speakers and by the staff. He commended the Australian authorities for the determination with which they had pursued their policy stance during previous years, and he welcomed their success.

Mr. Tourreilles stated that he agreed with the staff appraisal. The Australian authorities should be commended for the policies followed since the mid-1970s, which had enabled them to achieve a strong recovery in economic activity, lower inflation, and lower unemployment.

Commenting on two specific points, Mr. Tourreilles said that he shared the staff's view regarding the possibility of future overheating of the economy. He would encourage the authorities to consider applying cyclical action in addition to speeding up the process of absorbing foreign real resources, whether labor by a change in immigration policies, or consumption of intermediate products by a change in trade policies. He agreed with the staff on the desirability of reducing import tariffs. Nevertheless, he fully agreed with the Australian authorities that it was difficult to pursue a totally open policy when one of the main export categories, namely, agricultural products, was subject to major trade restrictions in the principal consuming areas. He urged the main consumer countries to remove their highly restrictive import barriers to agricultural products. In conclusion, he commended the Australian authorities for their efforts to maintain a good level of official development assistance, even in the face of a current account deficit.

Mr. Kharmawan remarked that he had come to the conclusion that Article IV consultations with the Fund should be strengthened, simply because the monetary system was not self-policing and some international organization ought to have the authority to look into the behavior of different countries. He had therefore suggested on several occasions that the consultation reports should be more systematic and more complete. The present report fully met his request. In particular, he was grateful for the section on policies, which enabled the reader to draw conclusions regarding the underlying conditions in the country.

He was happy to have read in the staff report, and to have heard from Mr. Prowse, that the economic situation in Australia was improving, Mr. Kharmawan stated. Australia was a very important neighbor for all the countries in his constituency, and the success of its economic policy gave an opportunity for his countries to strengthen their trade and economic relations with Australia. The possession of resources alone was not enough; countries needed to adopt policies to enable the resources to be exploited, and the Australian authorities had done just that. Early in the 1970s Australia had been suffering from low growth, inflation, and balance of payments deficits. The Australian authorities had therefore embarked on an adjustment policy; he agreed with Mr. Prowse that it would

be unwise to make a decision between adjustment and other policies. Adjustment and stabilization policies could not be separated: they were both designed to improve the economy and all that was related thereto.

The Australian authorities, Mr. Kharmawan went on, seemed to have adopted a policy of financial restraint related to the budget and to credit policy, as well as raising revenue on the export sector. On an earlier occasion, he had expressed his surprise at the sudden interest in certain quarters in supply-side economics. He had been surprised because in developing countries the main attention of the authorities had always been focused on economic growth and production. There could be no differentiation between demand-side policies and supply-side policies. All that the authorities could do was to adopt financial measures--including those affecting the budget, the exchange rate, and credit policy--while trying to improve the climate for production and investment. The more attention that was focused on supply aspects, the greater the temptation would be to make a sharp distinction between the so-called financial policies centered on the budget, credit, and exchange rate policies, and so-called supply-side policies. They were all one, and the only important thing was to implement them consistently.

It seemed to him that the Australian authorities had already embarked on policies to step up investment and to increase export revenues at a time when the term "supply-side economics" had yet to become known, Mr. Kharmawan said. He was glad to see that the policies were beginning to bear fruit in the form of financial restraints and the provision of a climate for greater production and more efficient investment. He agreed with those who had suggested that there should be less emphasis on monetary policy both in Australia and in the industrial countries; in Australia emphasis on such policies had led to an excessively large inflow of capital. He was glad to see that some improvement had been made in the wage situation, although wage pressures seemed to be rising again in connection with the investment boom. The authorities might alleviate the tight labor market by allowing people to come to Australia and thus increase the labor force.

On the matter of exchange rate policy, Mr. Kharmawan commented, it was extremely difficult to know whether Australia ought to resort to a revaluation of the exchange rate. He would be inclined to look for other ways of changing the effective exchange rate without revaluing. On the question of protection, he agreed with Mr. Tourreilles that the matter had to be looked at from both ends. While it might be correct to criticize the Australian authorities for their protectionism, the agricultural barriers placed in the way of Australian agricultural products ought also to be lifted. Agricultural protectionism in industrial countries affected not only Australia but also a great number of primary producing countries.

Nevertheless, the Australian authorities ought themselves to begin looking further into the tariff barriers that still remained, Mr. Kharmawan recommended. The time had come for the industrial countries to look seriously into those sectors of the economy that had proven to be

uncompetitive. There was after all no holding back the industrialization of the Third World. If the Third World was in a better position to manufacture goods that could be sold in the industrial countries, those countries ought to consider restructuring their manufactures and opening up their doors so that they could buy from the emerging manufacturing industries in the Third World. Such a major change would benefit the industrial countries themselves. If the purchasing power of the Third World increased, it would help to sustain the restructured industries in the industrial countries. He would conclude by paying high tribute to the Australian authorities and their attitude to aid to developing countries. They had long shown great generosity in that field.

Mr. Caranicas recalled that in January 1980 Mr. Whitelaw had explained that the Australian economic policy had been based on a philosophy--now more acceptable in the world at large--that to achieve sustainable economic growth one had to concentrate first on fighting inflation. The Australian authorities had also thought that they could make steady progress toward recovery through a deceleration in public sector spending and a revival of the private sector as the main engine of sustained economic growth. It had been a great achievement by the Australian authorities to reduce the rate of inflation from 17 per cent in 1974 to a level that compared favorably with that in most OECD countries by 1980. The country had a large backlog of projects, and it might be reasonable to compare the present stage of Australia's economic development with that of the United States in the 1930s. Australia possessed abundant natural resources needed for rapid industrialization, and besides had the good fortune to be distant from the world's centers of conflict. On the question of wages in Australia, it might prove difficult to contain wage increases at the present moment, because with the investment boom not only would trade unions tend to be more demanding but entrepreneurs would also be able to offer more. The suggestion that the wage problem might be overcome by opening the doors to immigration did not seem likely to prove effective in the short run. Immigration rules had become selective everywhere, and the effect of immigration took a considerable time to make itself manifest.

On the question of protectionism, Mr. Caranicas noted that for many years the Australian Executive Director had explained that his authorities were committed to gradually lowering the tariff wall. While it was true that Australia's agricultural exports faced severe protectionist barriers in other countries, it was still in Australia's best interest to have a long-term policy of reducing the level of protectionism used to resist penetration by the goods of other countries. Australia's keeping trade barriers for the time being as explained by Mr. Prowse reminded him of arguments in the United States, which despite its liberal trade philosophy and its immense economic power was resorting to protectionist practices. Clearly it was a debate that would not end soon, if only because of the political and social implications of measures for protecting jobs and negotiations for "voluntary agreements." He could therefore sympathize with the Australian authorities in wishing to proceed rather slowly in

reducing external tariffs. In passing, he wondered whether it was necessary for the reports on recent economic developments to be so large. In contrast, the short and concise staff report was amply adequate and most useful.

Mr. Narasimham commended the Australian authorities for the progress that the economy had registered in recent years. It was certainly a sad commentary on the state of the world that an increase of 4.3 per cent in nonfarm output should be considered a strong performance, while the rest of the world was showing little or no economic growth. He also expressed appreciation for the skillful deployment of policies by the Australian authorities, particularly in connection with the exchange rate. He associated himself with the points made by Mr. Kharmawan on protectionism. He was glad to note that the Australian authorities did have a deliberate policy of reducing tariff barriers over time. Finally, he commended the authorities for their commitment to official development assistance, and particularly for increasing their contributions through the international financial institutions. Australian official development assistance exceeded 0.5 per cent of GDP, a figure well above the OECD average of 0.35 per cent.

Mr. Kharmawan, commenting on an observation by Mr. Caranicas, stated that it would be deplorable if the reports on recent economic developments with member countries were shortened. It was possible to make a comprehensive staff report only if the report on recent economic developments was itself complete.

The staff representative from the European Department, replying to questions, stated that the present gap between actual and potential GDP reflected the fact that there were unused resources in Australia. For instance, the rate of unemployment was still about 6 per cent; but in some sectors bottlenecks were already appearing. The figure given for the gap between actual and poential GDP was an average and should not be considered representative of the situation in all sectors of the economy. He would try to provide Mr. Bakker with figures showing the changes in the salaries both in the civil service and in the private sector; there did not however seem to be difficulties associated with divergent movements.

As to the competitive position of Australia, the data provided by the staff suggested that there had been a large improvement in Australia's competitive position between 1974 and 1980 as a result both of exchange rate devaluation and of the reduction in the rate of inflation, the staff representative remarked. Increases in transport costs had moreover increased the "natural protection" of Australia, even though on the export side they were a handicap rather than an advantage. While Australia's trade relations with Asian countries were quite close, there was no preferential treatment. The increase in trade was simply a reflection of the relative proximity of the countries concerned. It was perhaps worth mentioning that imports from less developed countries into Australia had increased more than imports from those countries into any other industrial country in the past five years. Consequently, despite protection, Australia had a good record in that respect.

Taking up Mr. Winkelmann's question as to why there had been a large increase in employment in Australia while investment seemed to have been concentrated in capital-intensive sectors, the staff representative explained that the investment boom had been rather broadly based and that consumption had been quite buoyant. Even when investments had been made in the capital-intensive sectors, many of the projects themselves were still at the construction stage and thus required large amounts of labor. There were also a number of infrastructure projects which took up a great deal of manpower. Employment had expanded in the services sector because of the increase in incomes in general.

Discussing the prospects for the liberalization of financial markets, a point raised by Mr. Leimone, the staff representative said that the matter was under review by the Campbell Committee. Interest rates in the banking sector had been liberalized in December 1980, and further decisions might follow when the Campbell Committee presented its recommendations. Mr. Sigurdsson's question regarding the quantitative effects of trade restrictions on Australian exports was more difficult to answer. Table 43 in SM/81/114 showed a reduction in agricultural exports from Australia to the European Communities, but it was difficult to interpret the reduction as the result of trade restrictions alone. It could have been caused by a number of other factors, such as improvements in the productivity of the agricultural sector in the European Communities.

Commenting on one of the main issues raised by the consultation, namely, the labor market, the staff representative recalled that the Arbitration Commission had in effect decided to continue with the existing system of partial indexation and half-yearly reviews. What was new was that there had been a decision to undertake a complete review of existing institutional wage determination procedures. There was certainly a great deal of dissatisfaction with the existing arrangements, and the review was quite timely.

Regarding fiscal policy, a number of Executive Directors had asked whether there were prospects for a further tightening and for a change in the policy mix, the staff representative noted. The recent decisions described by Mr. Prowse would certainly result in a significant tightening of fiscal policy, at least at the Commonwealth level. While there had also been some commitments to increase defense expenditure, the prospects were for a significant surplus in the Commonwealth budget in the coming fiscal year. As to the states, Mr. Price had been concerned that the reduction in transfers received from the Commonwealth might be offset by the additional revenue resulting from the resources boom. While such a phenomenon could occur, he doubted whether there would be a full offset. One of the purposes of the reduction in transfers from the Commonwealth to the states was to encourage the states to raise revenue of their own, in particular by increasing some of the prices charged by state public utilities. While FY 1980/81 had not been a period of great restraint in spending, it had been an election year, and in FY 1979/80 public expenditure had declined in real terms. The authorities would however like, if possible, to stabilize public expenditure in real terms in the coming fiscal year.

He did not share Mr. Nagashima's concern about the size of Australia's current account deficit, the staff representative stated. The deficit was partly cyclical and partly due to higher oil prices. Moreover, it should be seen as the counterpart of the large capital inflows into Australia. Moreover, the staff's view was that the more Australia could import, either through a reduction of protection or through an exchange rate appreciation, the better off it would be from the standpoint of reducing inflation. Nevertheless, Mr. Nagashima was certainly right in feeling that some of the increase in current account deficit might be a reflection of a tendency to overheating.

Discussing the question of the exchange rate regime, raised by a number of Executive Directors, the staff representative from the European Department recalled that the issue was being debated in Australia and that it was under review by the Campbell Committee. The present system certainly had costs, but it also had advantages. On a general level, there was not much difference between a system of managed floating and a system of managed peg, which was the Australian arrangement. In a managed float, the market determined the exchange rate instantaneously, and the authorities intervened to change the rate. Under a managed peg, the authorities first fixed the rate and then watched to see what changes took place in the reserves. If the change was unsustainably large, they would adjust the peg; but the end result was fairly similar. It was also important to distinguish between the exchange rate regime and the exchange rate policy. The staff had taken the view, from the standpoint of the Fund's role in surveillance over exchange rates, that it was difficult to criticize Australia's exchange rate policy. He did not agree with Mr. Leimone that the exchange rate had been managed in such a way as to retard the rate of appreciation. After all, the rate had appreciated, and the balance of payments was in equilibrium. Until recently, reserves had been declining year after year, and there had been only a small increase during the past six months, part of that being seasonal.

Mr. Prowse explained the changed relationships between the Australian Government and the state governments. The new arrangements between the Commonwealth and the states involved tax sharing, meaning that the Commonwealth reimbursed the states for some of the income tax collected on behalf of the Commonwealth. Under the previous system the states had received about 40 per cent of net income tax revenue; under the new system they would receive some 20 per cent. In practice, whereas previously the states would have received a 15 per cent increase in the tax reimbursement grant, in FY 1981/82 they would receive a 10 per cent increase. That 10 per cent referred to all grants and reflected the absorption of some specific purpose payments. The new formula itself would have produced an increase of 9 per cent, so that the amount received by the states would remain unchanged in real terms. There had thus been an important development for the future control of fiscal policy in Australia. Since the early 1970s it had to be admitted that the reimbursement to the states had been on a generous basis and had in fact been a form of weakness in overall fiscal policy, as Mr. Price and others had noted. The recent change should bring about a great difference for the future.

Speakers had asked whether the constraint on the reimbursement of the states would lead them to increase their borrowing requirement, Mr. Prowse recalled. The situation was that Australian states were unable to borrow freely except with the agreement of the Loan Council, where the Commonwealth Government exercised a powerful influence in determining the total level of central government borrowing.

Commenting on the present and forthcoming budgets, Mr. Prowse observed that the current budget had to be seen as part of the political process. An increase of 3 per cent in real terms reflected the elections that had taken place at the federal level during 1980. During 1979 and 1980 together there had been on average an increase of only 1 per cent in Commonwealth spending in real terms, meaning that the Commonwealth budget sector was growing much more slowly than the economy as a whole. Nor could there be any doubt that the Commonwealth Government was committed to reducing the rate of growth of the Commonwealth budget over the long term. Now that the capacity of the states to weaken their fiscal stance had been reduced, it seemed likely that in due course there might even be a zero growth in the Commonwealth budget from one year to the next. Executive Directors would recall that in FY 1974/75--the last year of the previous administration--the real outlays in the Commonwealth budget had grown by 10 per cent, and the following five years had been spent in trying to contain budget expenditure. As another aspect of the same problem, the rate of inflation as reflected in the consumer price index had been 19.7 per cent in FY 1974/75; in FY 1979/80 it had been 7.3 per cent.

Describing the new arrangements for wage determination, Mr. Prowse explained that the previous arrangements had really amounted to complete, or substantially complete, indexation, and that the average indexation over many years had been somewhat over 80 per cent of changes in prices. The new arrangements provided for an 80 per cent adjustment for changes in the CPI for the December and March quarters; however, in the following September quarter the Wage Commission would consider whether the balance of 20 per cent should or should not be awarded. It would consider the June and September quarter movements, taking into account changes in productivity and the state of the economy, and it would discount in particular price movements and wage increases taking place outside the centralized wage setting process. The new wage system was therefore an improvement on the old one: it delayed the adjustment of prices at least until the end of a given year; it included some indexation at the second half of the year; and it did specifically recognize the need for discounting, for government policy, outside wage adjustments. Moreover, as the staff representative had said, the proposed inquiry was unique in the history of the Commonwealth and might well produce some further moderation in wage increases.

As to changes in the financial markets, Mr. Prowse noted that there was no way of knowing what the Campbell Committee would recommend. However, in addition to removing controls on the interest rate on deposits, the authorities had also moderated the exchange control provisions used

in support of the managed system in a number of specific and detailed ways. His own feeling was that it would be reasonable to anticipate considerable further liberalization in the financial system. There was even speculation on the possibility of admitting foreign banks more freely into the country.

Taking up the comments made by Executive Directors on protection and the management of Australia's exchange rate, Mr. Prowse observed that his starting point was that the level of the exchange rate ought to reflect the overall balance of payments position, rather than merely the reserve position. For example, the reserve position had risen by $156 million in January 1981, fallen by $400 million in February 1981, and fallen again in March 1981. The overall balance had been positive in January, negative in February, and positive in March. The recent run of figures did not seem to him to argue for anything more than the moderate appreciation in the exchange rate that had in fact occurred during the first quarter of the year. Taking recent years as a whole, the Australian dollar had on average depreciated by 3 per cent or 4 per cent in 1979 and appreciated by something of the order of 6 per cent in 1980.

The authorities' view was that the exchange rate should reflect developments in the balance of payments in the long term, Mr. Prowse continued. In the short term the exchange rate was not assigned solely to achieving balance of payments equilibrium, and the authorities believed that a free float would involve considerable instability, as it had done in other countries. With the thin market for foreign exchange in Australia, the effects of volatile movements would be large and disruptive both to trade and to capital investment. On the other hand, the general impression was that Australia's external position would strengthen over time and that the exchange rate would move accordingly, reflecting the overall circumstances. It would certainly be quite incorrect to believe that because the rate was in some sense administered, it would necessarily prove inappropriate in the end. His Australian authorities simply believed that short-term factors did not necessarily reflect fundamental issues.

On the subject of protection, Mr. Prowse said that he had been gratified by some of the remarks by Mr. Kharmawan and Mr. Caranicas. His authorities were subject to pressure from both sides: the developing countries exerted pressure to obtain more access to Australian markets, while the developed countries were denying access for many of Australia's agricultural products and were even threatening its traditional outlets. The extent to which Australia could respond to the quite proper pressures from its regional and other developing country trading partners had to be influenced by the extent to which it could find markets for its own products. Exports from developing countries in nearby Asia had recently been growing by about 35 per cent per year, and the share of developing countries as a whole in Australia's imports had risen by 50 per cent between 1972/73 and 1978/79. On a per capita basis the United States was the only developed country that imported more manufactured products from developing countries, and Australia imported more textiles, clothing,

and footwear than any other country. There was in fact provision for special assistance to the developing countries and a preferential scheme entitled the Developing Countries Preference, a position more satisfactory to the developing countries than the most favored nation clause. The recently introduced preference should enhance the growth of trade between Australia and the developing countries as a whole.

As to agricultural protection, the Australian beef industry was heavily disadvantaged by extremely strict quotas among its trading partners, Mr. Prowse noted. In the view of the authorities, there were countries other than those in the European Community that had a capacity to import more meat. The Economic Communities had set up major obstacles for the Australian dairy and sugar industries, but the sugar industry had managed to find other outlets in a fairly strong world market. While agricultural protection had to some extent been shrugged off by Australia because of the strength of its other exports, New Zealand had been almost crippled for many years during the 1970s by the effects of agricultural protectionism. New Zealand's economy did not have the same diversified strength as Australia's, and the standard of living of the population had declined as the result of agricultural protectionism, even though New Zealand had perhaps the most efficient sheep and dairy industries in the world.

In any event, the level of protection in Australia had moved downward quite substantially over the past decade, Mr. Prowse observed. The average nominal rate of assistance to manufacturing industries in 1978/79 had been estimated by the independent Industries Assistance Commission to have been 15 per cent and the effective rate 26 per cent. The corresponding figures for 1968/69 had been 24 per cent nominal and 36 per cent effective. Consequently, over the decade both nominal and effective rates had been reduced by some 10 per cent. As to the effect of the import preferences on less developed countries, while it was true that the developing countries' preference was nondiscriminatory and intended to benefit developing countries as a whole, both because of proximity and because of long-established access to the Australian market, the policy was likely to benefit countries in the region more. There were bilateral treaties with a number of island countries, which provided favorable access to Australia for the exports of those islands without any quid pro quo for Australia in return.

A number of speakers had commented on Australia's immigration policy, Mr. Prowse recalled. While he would certainly pass those comments to his authorities, Executive Directors might like to know that Australia was now pursuing a more active immigration policy than it had for some years. Net immigration into Australia during the last complete years for which data were available had been in the neighborhood of 100,000 people, a considerable number in a population of 14 million. Among the 100,000 was a substantial proportion of immigrants from the Australian region itself, and there was now a significant leavening of the population by people from the region. The authorities were certainly aware of the usefulness of allowing skilled immigrants to overcome the bottlenecks already evident

in the labor market; but skilled people were precisely the sort that the source countries themselves wished to retain. How far a comparatively rich country should assist its own development at the expense of other countries that perhaps needed the skilled labor more was certainly a moral question. In the broad sense, it was not easy to say whether skilled people from the Asian countries, for instance, would not be better off if they stayed in their own countries.

The Acting Chairman made the following summing up:

Directors generally commended the policy record of the Australian authorities over the past several years. They noted that the recovery in economic activity, the decline in unemployment, the containment of inflation, and the strengthening of the external position owed much to the gradual but steady and determined restraint on public expenditure, monetary expansion, and labor costs. The most disappointing aspect of the present economic picture was found to be the acceleration of wage inflation, which, if unchecked, risks making the current pace of economic activity unsustainable. It was hoped that arrangements for wage determination would be improved. The authorities were thus encouraged to continue to give priority to the reduction of inflation so as to continue recent successes.

In order to assure room for the present investment boom, Directors counseled continued restraint on other components of demand and, in particular, on expenditure by the public sector at all levels. In this regard, the measures of fiscal restraint announced recently were warmly welcomed, although the effects of the particular features of the federal structure of the country for the control of overall public sector outlays were noted.

Directors agreed that it was important to shift some of the burden of fighting inflation from monetary policy to fiscal policy in order to avoid the risk of undesirably high interest rates and higher capital inflows. They also suggested that more active labor market policies, such as encouragement of immigration and the training of skilled workers, would further contribute to improving the supply performance of the economy over time.

Directors, while recognizing the difficulties involved, emphasized the desirability of a significant reduction in the still relatively high level of protection for Australian industry. Such a move would be helpful from an international perspective and would contribute to the containment of inflation and wages. Directors stressed that present circumstances, with both the labor market and the overall balance of payments stronger than they had been in some years, were particularly favorable to a reduction of import barriers, and it was generally agreed that this would be the most desirable form of adjustment to the expected continued

strengthening of the balance of payments. In this context the hope was also expressed that protection in Australia's foreign markets would be reduced.

In the light of these considerations most Directors commended the Australian authorities for their exchange rate management, which, in recent years, had avoided wide fluctuations in the exchange rate while helping to achieve overall balance in the external accounts. Recent and prospective current account deficits appeared quite sustainable in view of the inflows of capital, including, in particular, direct investment. Several Directors expressed interest in the present inquiry into the Australian financial markets, including the exchange market.

Finally, several Directors praised Australia's record on official development assistance.

3. EXECUTIVE DIRECTOR

The Acting Chairman bade farewell to Mr. P. L. Mapa, Jr. on completion of his term of office as Alternate Executive Director to Mr. Prowse.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/81/81 (5/13/81) and EBM/81/82 (5/29/81).

4. FOOD IMPORT COSTS - FUND FINANCIAL ASSISTANCE - REPORT TO INTERIM COMMITTEE

The Executive Board approves the report and the procedure set forth in SM/81/106, Revision 1 and Revision 1, Correction 1 (5/14/81).

Adopted May 14, 1981

5. OPERATION OF FUND ACCOUNTS - AUTHORIZED SIGNATORIES

I. On and after May 15, 1981, the following officials of the International Monetary Fund are authorized to operate (i) the Fund's No. 1, Securities, and Gold Accounts held in the General Resources Account; (ii) the Borrowed Resources Suspense Cash, Securities, and Investment Accounts held in the General Department; (iii) the Subsidy Cash and Securities Account; (iv) the Trust Fund Cash and Securities Accounts; and (v) the Supplementary Financing Facility Subsidy Cash, Securities, Deposit, and Investment Accounts, as follows:

(a) The Managing Director together with the Deputy Managing Director, or either of them together with any one of the officers listed under (b) or (c) below.

(b) Any two of the following signatories, or any one of them together with any one of the signatories listed under (a) or (c):

(1) The Treasurer
(2) The Deputy Treasurers
(3) The Assistant Treasurers
(4) The Advisor, Treasurer's Department
(5) The Chief of the Accounts and Financial Reports Division
(6) The Chief of the Administrative Expenditures Division
(7) The Chief of the Financial Relations Division
(8) The Chief of the Operations Division for General Resources
(9) The Acting Chief of the Operations Division for SDRs and Administered Accounts

(c) Any one of the signatories listed under (a) or (b) together with any one of the following:

(1) The Assistant Chief of the Accounts and Financial Reports Division
(2) The Assistant Chief of the Administrative Expenditures Division
(3) The Senior Operations Officers--Operations Division for General Resources
(4) The Senior Operations Officers--Operations Division for SDRs and Administered Accounts
(5) The Cashier

II. Any one of the signatories mentioned above shall be and hereby is authorized to operate the Fund's No. 2 Accounts.

III. The foregoing officials, in conformity with this Decision, are hereby authorized and empowered in the name and on behalf of the Fund for its own account or on behalf of the Subsidy Account in accordance with paragraph 1 of Executive Board Decision No. 4773-(75/136), adopted August 1, 1975, or on behalf of the Trust Fund in accordance with Section III, Paragraph 1 of the Instrument annexed to Executive Board Decision No. 5069-(76/72), adopted May 5, 1976, or on behalf of the Supplementary Financing Facility Subsidy Account in accordance with Section 11 of the Instrument contained in Executive Board Decision No. 6683-(80/185) G/TR, adopted December 17, 1980, to open and operate cash, deposit, securities, and investment accounts with such banks and other institutions as have been or shall be designated as depositories of the Fund in accordance with Article XIII, Section 2, of the

Articles of Agreement of the Fund, and with international financial institutions with which investments may be placed; to arrange for the deposit in such accounts of gold or currencies which shall be paid or payable to the Fund and any or all securities held by or to be delivered to the Fund; to execute and deliver any and all such drafts, endorsements, delivery orders, certificates, and other documents; to take any or all such other action as they shall deem necessary or proper in order to effect deposits in such accounts and withdrawals therefrom; and to issue such orders, demands, and instructions and to take all such other action as they shall deem necessary or proper in order to arrange for the safekeeping of such gold, currencies, and securities, the maintenance of such accounts, the withdrawal of any such gold, currencies, and securities therefrom, and the delivery of any such gold, currencies, or securities by any such depository or other institution.

IV. This decision supersedes Executive Board Decision No. 6505-(80/182), adopted May 16, 1980. (EBAP/81/176, 5/12/81)

Decision No. 6866-(81/82), adopted May 14, 1981

6. INCREASE IN STAFF CEILING AND ESTABLISHMENT OF BORROWING UNIT

The Executive Board approves the proposal set forth in EBAP/81/177 (5/14/81).

Adopted May 15, 1981

7. THAILAND - TECHNICAL ASSISTANCE

In response to a request from Thailand for technical assistance, the Executive Board approves the proposal set forth in EBD/81/138 (5/15/81).

Adopted May 28, 1981

8. SEACEN - TECHNICAL ASSISTANCE

In response to a request from the South East Asian Central Banks (SEACEN) Research and Training Centre, Kuala Lumpur, for technical assistance, the Executive Board approves the proposals set forth in EBD/81/136 (5/11/81).

Adopted May 14, 1981

9. AUDIT COMMITTEE, FY 1981

The Executive Board approves the proposal set forth in EBAP/81/125, Supplement 1 (5/21/81).

Adopted May 27, 1981

10. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/81/153, Supplement 1 (5/14/81), EBAP/81/169 (5/27/81), and EBAP/81/173 (5/12/81), and by Advisors to Executive Directors as set forth in EBAP/81/174 (5/12/81) and EBAP/81/175 (5/12/81), is approved.

APPROVED: October 21, 1981

LEO VAN HOUTVEN
Secretary